

CEO Characteristics and Frequency of Share Repurchases

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Abstract

This study investigates whether companies repurchase shares to improve EPS and whether the characteristics of chief executive officer (CEO) play a significant role in the share repurchase frequency in Malaysian nonfinancial companies. Based on robust probit regression using 274 observations of Malaysian actual share repurchase events between 2006 to 2010, we find significant evidence that companies frequently repurchase shares in an attempt to smooth reporting earnings. We also find that CEO duality, CEO expertise and CEO tenure can greatly influence the frequency of share repurchase events. The idea that managers utilize share repurchases to smooth earnings is quite worrying as it could potentially result in unfavorable implications for the company's long-run performance.

Key Words: Share buybacks, firm performance, board diversity, board characteristics, financial policy, earnings management.

1. Introduction

Share repurchases have gained much popularity in the Asian region, especially after the Asian financial crisis in 1998. The main reason for embarking share repurchases is to support company's share price from depressing global market. However, recent evidence indicates that share repurchases may be used to mislead investors such as to make seemingly improved EPS [1]. Consequently, adequate governance mechanisms are deemed vital to improve the effectiveness of the company's policies and safeguard shareholders' interests. One of the reemphasized recommendations made in the recent Malaysian Code on Corporate Governance 2012 [2] is to ensure the position of chairman and CEO be held by different individuals. Separation of these two positions is perceived to enhance accountability of these two individuals. Chairman of the board should be responsible for the oversight of the management whilst CEO should concentrate on day-to-day business management. The code also reemphasizes the importance of having an independent board as it could provide effective monitoring, thus offers an adequate assurance against misappropriation of power and authority of the controlling owner. Taken together, a) separation of CEO and chairman positions and b) independent board are two important mechanisms that can provide